

# RETIREMENT TODAY

TEACHERS' FUND FOR RETIREMENT

JUNE 2005

## TFFR Board Receives Experience Study Results

Every five years, the TFFR Board has an actuarial experience study performed by the fund's actuary. Gabriel, Roeder, Smith & Company (GRS) recently completed the study for the five-year period ending June 30, 2004, and presented its findings to the TFFR Board.

Experience Studies are conducted to review the assumptions used to determine a pension fund's liabilities, contribution rates, and funding period. Assumptions include rates of retirement, mortality, turnover, disability, investment return, and salary increases. The actuary determines whether the assumptions being used are consistent with actual past experience and with anticipated future experience.

The most significant finding in the 2004 Experience Study was that individual teacher salary increases were at a higher rate than assumed which added more to TFFR's accrued liability. There were also differences between assumptions and actual experience occurring with the number of terminations and the number of retirements at first eligibility, which resulted in additional actuarial losses.

To more accurately reflect TFFR's actual experience in its liability calculations, the actuary recommended, and the Board adopted, changes to certain assumptions. These include the salary increase assumption,

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### BOARD MEMBER APPOINTMENTS

Governor Hoeven recently reappointed Dr. Mark Sanford, Superintendent of Grand Forks Public Schools, to another five-year term on the TFFR Board of Trustees. Dr. Sanford has been a trustee since 1992, and has been board president since 1995. He also represents TFFR on the State Investment Board.

Another trustee appointed by Governor Hoeven is Michael Gessner. Representing active teachers, Mike is a Math teacher at Minot High School with over 33 years of experience.

We appreciate their leadership and commitment to providing a financially sound retirement plan for North Dakota educators.



*Mark Sanford*



*Mike Gessner*

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# Memo to Members

This year, the TFFR Board is conducting two very important studies which will provide valuable information needed to prudently manage your retirement plan.

## Experience Study

The results of TFFR's five-year Experience Study were presented to the Board in March (see article on cover). In a nutshell, the report indicates that while most actuarial assumptions remain accurate, there are a few that need to be updated in order to reflect actual experience of our members. For example:

- Salary increases - Individual teacher salary increases were higher than assumed
- Terminations - Fewer teachers terminated than expected
- Retirements - More teachers retired when first eligible than assumed

The assumption changes resulted in additional costs and liabilities. Consequently, the Board decided to also make adjustments to the timing and manner in which TFFR's unfunded actuarial accrued liability is amortized. Like refinancing a home mortgage over a longer time frame, these amortization adjustments will slow down the funding of the TFFR plan.

## Asset Liability Modeling (ALM) Study

There is a significant and dynamic relationship that exists between the assets of the system and its future liabilities. This important relationship is explored every five years in an Asset Liability Modeling Study (ALM). The results of the 2005 ALM Study will be presented to the TFFR Board in June.

Traditional investment theory says that 90% or more of the variability of a fund's return is explained by asset allocation. Because of this overwhelming impact, an ALM Study is necessary to help the TFFR Board establish an investment asset mix and projected rate of return appropriate for the pension liabilities of the TFFR system, while providing a level of risk that the board is comfortable with.



Fay Kopp  
Deputy Executive Director

## After the studies, then what?

The defined benefit plans of public retirement systems are designed to accumulate the funding needed to pay liabilities over a very long period of time. Long-term assumptions are made for economic factors, including investment earnings, recognizing that there may be extended periods of time during which market gains will either exceed or fall short of those assumptions. However, by using reasonable actuarial assumptions, diversifying portfolios, and pooling experience, public retirement systems work to maintain stable contribution rates and accumulate the assets needed to fund member benefits over the long-term.

The Experience Study and ALM Study will help the TFFR Board determine whether or not TFFR can rely on investment performance alone to return to pre-2000 funding levels. Over the very long term, if future investment returns are not able to offset past adverse experience, it is possible that higher contributions and/or benefit changes for new hires may need to be considered to assure the long-term financial stability of TFFR.

Changes to pension policy take many years to be fully realized. However, we must begin the process today by conducting necessary studies, and then using the information to determine what steps should be taken in the future to address the funding needs of TFFR.

## PENSION SOFTWARE PROJECT UPDATE

Implementation of the new CPAS pension software continues to be a major focus for RIO staff with 70% of the tasks completed. We are conducting user acceptance testing this spring, with plans to go live this summer. Consequently, you may begin seeing some slight changes to your annual statements, benefit estimates, and pension checks and notices.

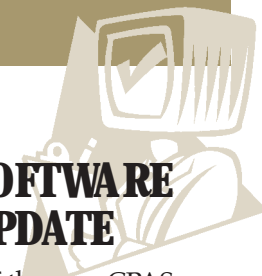
Our goal has been to update outdated technology, improve service to members and employers, increase data reliability, provide tools to increase staff productivity, and enhance system integration capabilities. Please be patient as we make this important transition from the old computer system to the new. We believe that over time, TFFR members, employers, and staff will benefit.

## RETIREE RE-EMPLOYMENT NOTIFICATION

A TFFR Retired Member Employment Notification form MUST be completed EACH year a retiree is hired by a TFFR employer. The completed form, along with a copy of the retiree's contract or employment agreement, must be submitted to TFFR within 30 days of employment.

Failure to notify TFFR may result in the loss of one month's annuity benefit for the retiree. In addition, employers are subject to a penalty of \$250 for failure to file required reports/forms with TFFR.

It is important that retirees, employers, and TFFR work together to make sure retiree re-employment is handled correctly.



# 2005 LEGISLATIVE SUMMARY

*While there were a number of TFFR related bills considered by the 59th Legislative Assembly, only two were approved. These two bills have minimal impact on TFFR administration, and have no cost impact. As discussed in past newsletters, TFFR 2005 legislative proposals did not contain retirement benefit improvements or benefit plan changes that would have a negative financial impact.*

## APPROVED

### • HB 1068

*Retiree Reemployment in Critical Shortage Areas and IRS compliance (TFFR Board)*

This bill removes the July 31, 2005, expiration date and makes permanent the option for retirees to return to TFFR covered employment full-time in critical shortage areas, and re-enacts several sections to comply with IRS qualification requirements. Both the House and the Senate unanimously approved the bill, and it was signed by the Governor.

### • HB 1172

*Child Support Exemption to TFFR Confidentiality Provisions (Dept. of Human Services)*

Among other things, this bill allows a government child support enforcement agency access to TFFR member records to enforce a child support obligation.

## DIRECT DEPOSIT WORKS...

IF you are currently receiving a paper TFFR pension check, stop wondering when you will receive your check in the mail and when you will make the trip to the bank to deposit it. Instead, sign up for direct deposit (electronic funds transfer). It is a safe, fast, and cost effective method of receiving your monthly benefit. Direct deposit guarantees that your annuity check is

## FAILED

### • HB 1067

Would have allowed summer school teachers working under a short-term contract to elect not to participate in TFFR.

### • HB 1361

Would have allowed member interest groups approved by the TFFR Board (NDRTA, NDEA, NDCEL) limited direct access to confidential member information such as name, address, and participation status.

### • HB 1457

Would have allowed nonretired TFFR members who received less than one year of service credit for teaching kindergarten programs in a public school prior to July 1, 1987, retroactive service credit based on the number of hours worked instead of the number of days worked.

### • SB 2413

Would have allowed Department of Career and Technical Education employees to transfer their retirement participation from TFFR to PERS.

## TAX WITHHOLDING REMINDER

Since your TFFR benefits are subject to federal and state taxation, don't forget to periodically review your tax withholding election. If your tax withholding is not adequate, you may have to pay estimated taxes during the year or a tax penalty at year end. You may elect no withholding, specify withholding based on marital status and allowances, or specify withholding plus an additional amount.

You may also have North Dakota state taxes withheld from your retirement benefit. However, TFFR cannot withhold taxes for another state. Please note that for current retirees who are having state taxes withheld, we have calculated the withholding amount using a percentage of the federal withholding. However, new retirees and current retirees who change their state tax withholding in the future, will have their withholding amount calculated using percentage of wages tables, and not calculated as a percentage of the federal withholding. This change should have minimal impact on retiree withholding amounts.

If you would like to start, change, or stop federal or state tax withholding, contact our office for the necessary form.

deposited to your checking or savings account on the first working day of every month. It also eliminates problems with lost or misplaced checks.

IF you are among the 90% of retirees who have already authorized direct

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## Direct Deposit

*(continued from inside story)*

deposit of your TFFR pension payment, you already know the advantages of this payment option. What you may not know is that if you decide to close your current bank account, you must complete a new Authorization for Direct Deposit form to notify us of your new bank account information.

Direct Deposit forms are available on the RIO website or upon request. We must receive the form by the 15th of the month to make the change for the first of the following month.

## Experience Study Results

*(continued from cover story)*

non-disabled post-retirement mortality assumption, pre-retirement mortality rates, termination assumptions, retirement rates, and revisions to the age/sex/pay profile for new entrants.

Unfortunately, the actuarial impact of the Experience Study assumption changes reflects an increase in the cost of the plan. The unfunded actuarial accrued liability increases from \$355 million to \$414 million, the funded ratio decreases from 80.3% to 77.7%, and the actuarial margin decreases from -3.59% to -6.01%.

To help manage the costs of the Experience Study assumption changes, the TFFR Board also approved a change to the amortization period from 20 years to 30 years, which is a commonly used industry standard. Additionally, the Board decided to change the amortization approach from a level dollar amount to a level percentage of payroll. The net result of adopting all of these changes is a slight improvement in funding.

It is crucial that assumptions used to calculate the liabilities, contribution rates, and funding period of the TFFR plan be updated and accurate as possible so that the Board can make prudent funding decisions. The new assumptions will be used in the July 1, 2005 actuarial valuation.

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